



House Budget Committee

Democratic Caucus

U.S. Rep. John Spratt ■ Ranking Democratic Member

214 O'Neill Building • Washington, DC 20515 • 202-226-7200 • www.house.gov/budget_democrats

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The “90/10 Plan”: An Empty Promise to Reduce Debt

Dear Democratic Colleague:

The 90/10 budget plan is an effort by the majority to show that it has abandoned its agenda of tax cuts with exploding costs, at least for this year, and is now devoted to paying off the public debt. The problem is the 90/10 plan is an empty promise. While it sounds like a model of budget discipline, it actually would allow huge tax cuts and spending increases, both next year and over the next ten years, that jeopardize our efforts to eliminate the debt.

Even if Congress enacted all the tax cuts (which cost almost \$1 trillion over ten years) that have passed the House this year, the 90/10 Plan would still leave enough money on the table to increase 2001 appropriations faster than in the President's budget. Those tax cuts' exploding out-year costs would dissipate much of the surpluses that are needed for getting rid of the debt.

The 90/10 Plan's Flaws — The first flaw in the 90/10 Plan is it that it does not provide the spending constraints in 2001 that its supporters claim. The starting point already assumes that appropriations will grow with inflation. By itself, this starting point puts appropriations spending a bit above the President's budget (as estimated by CBO) and \$12.5 billion above the budget resolution that Republicans pledged they would adhere to last spring.

The plan then makes 10 percent of the remaining surplus, or \$27.8 billion, available for new tax cuts and even more spending. Republicans propose that \$14.0 billion of that amount be devoted to tax cuts, with the remainder for new spending. If all the remainder were dedicated to increasing appropriations spending, it would lift appropriations \$19.2 billion above the budget resolution that Republicans passed last spring and \$7.6 billion above the President.

The second flaw in 90/10 is that it does not oblige Congress to jettison its trillion dollar tax cut agenda. The attached table shows that even if every tax cut the House passed this year had been enacted into law, there would still be \$4.3 billion to spare for spending increases and the associated interest costs under the 90/10 Plan.

A Trojan Horse Which Jeopardizes Debt Reduction — The table also reminds us that the primary threat to paying off the public debt comes from tax cuts whose costs explode over time. Altogether, the 10-year cost of the various tax cuts that passed the House this year is close to a trillion dollars when interest costs are included, \$943.4 billion to be precise. Furthermore, the tax cuts listed in the table don't include about half of the items in last year's failed \$929 billion tax package.

And yet, all of these tax cuts — this year's and last year's — could fit within the 90/10 plan because it is silent about long-term costs. Phase-ins and timing shifts can always be used to keep the leading edge of the cost "wedge" as small as needed even if the back end is huge. The 90/10 Plan merely requires that the total first-year cost of new tax cuts and spending increases not exceed \$27.8 billion.

Eliminating the public debt, though, requires consistent discipline for more than a decade, not just one year. This is especially true since the projected surpluses available for paying off the debt don't really get large until the end of the decade. The 90/10 plan is not a real debt reduction plan either for 2001 or for the rest of the decade.

I hope this analysis is helpful. Please feel free to call me or have your staff call the Democratic staff of the House Budget Committee if you have any questions.

Sincerely,

A handwritten signature in black ink, reading "John Spratt". The signature is written in a cursive, flowing style with a large initial "J" and a stylized "S".

John M. Spratt, Jr.
Ranking Democratic Member

Cost of the Republican Tax Agenda

Billions of Dollars

	<u>2001</u>	<u>2001- 2010</u>
H.R. 7, Education tax cuts	0.2	11.6
H.R. 8, Estate tax elimination	0.0	104.7
H.R. 2990, Health insurance access	0.6	68.5
H.R. 3832, "Minimum Wage" tax cuts (less duplicative items)	1.4	17.4
H.R. 3916, Telephone excise tax	1.4	50.7
H.R. 4163, Taxpayer bill of rights	-1.3	7.0
H.R. 4810, "Marriage penalty" relief	15.3	292.4
H.R. 4843, IRA expansion, pension changes	1.1	52.2
H.R. 4865, Reduced tax on Social Security benefits	3.6	117.3
H.R. 434, Trade and development	-0.1	0.0
H.R. 4762, Tax treatment of "527" organizations	0.0	0.0
H.R. 4844, Railroad retirement	0.1	1.6
H.R. 4923, Community renewal	0.1	20.5
H.R. 4986, Foreign sales corporations	0.1	4.2
Total	22.5	748.1
Added Interest Costs on the public debt	1.0	195.3
Total Budget Effect of All House-Passed Tax Cuts	23.5	943.4
Available Surplus Under the 90/10 Plan	27.8	N/A
Remainder Available for Spending (Including Debt Service)	4.3	N/A